

U.S. DEPARTMENT OF COMMERCE
FEDERAL MARITIME BOARD
MARITIME ADMINISTRATION

REVOKES AO-179 dated
3-6-56 and Amend. 1
dated 5-29-57

ORDER NO. ~~510-1~~ 510-1
(Amended)
EFFECTIVE DATE
February 10, 1959

MANUAL OF ORDERS

SUBJECT

**DETERMINATION OF THE ELIGIBILITY OF SHIPS FOR
CONSTRUCTION-DIFFERENTIAL SUBSIDY - WITH OR WITHOUT
ALLOWANCES FOR NATIONAL DEFENSE FEATURES**

Section 1. Offices Affected:

Office of Ship Construction
Office of Government Aid -
 Division of Contracts
 Division of Trade Routes
Office of Ship Operations
Office of the Comptroller
Office of the General Counsel

Section 2. Purpose:

2.01 The purpose of this order is to prescribe the responsibilities and procedure for determining the eligibility of ships for construction-differential subsidy, including those with or without national defense features, proposed to be constructed, reconstructed or reconditioned under Title V of the Merchant Marine Act, 1936, as amended, hereinafter referred to as the Act. Procedural steps involved in the preparation and execution of construction-differential subsidy contracts and their administration are excluded from this order.

Section 3. Policy:

3.01 Pursuant to Title V of the Act, it shall be the policy of the Federal Maritime Board to grant construction-differential aid, and national defense allowances, consistent with the law and available appropriation authority, as it deems necessary to carry out effectively the purposes and policy of the Act.

3.02 With respect to new construction and reconstruction pursuant to Title V of the Act, it shall be the policy of the Federal Maritime Board and the Maritime Administrator to:

- 1 Cooperate closely with the Department of Defense as to national defense needs and the possible speedy adaptation of the merchant fleet to national defense requirements.
- 2 Submit plans and specifications for proposed ships (unless they are previously agreed types) to the Department of the Navy for examination and suggestions for changes in order that such ships shall be suitable for economical and speedy conversion into naval or military auxiliaries, or otherwise suitable for use by the Government in time of war or national emergency.
- 3 Pay the cost of national defense features certified by the Secretary of the Navy (a) in full as to those features which

have no commercial value or (b) to the extent that the total cost of national defense features exceeds the cost of that part of said features which are determined to have commercial value to the applicant.

Section 4. Determination Under Title V:

*4.01 Approval in Principle of Commercial Characteristics:

- 1 Upon receipt from the Secretary of an application for construction-differential subsidy under Title V, with a preliminary design study of the proposed ship and other supporting data, the Chief, Office of Government Aid, shall forward copies for preliminary review and comment to the Office of the General Counsel (1 original and 1 copy); Office of the Comptroller (1 copy); Office of Ship Construction (3 copies); and the Office of Ship Operations (1 copy); and such other Offices, if any, as may be determined by the Office of Government Aid to be interested in a particular application.
- 2 The Offices of Ship Construction, Ship Operations, and Government Aid shall evaluate matters under their respective cognizance as defined in Section 4.02 of this order, on a preliminary basis, subject to a complete review of all pertinent data at a later date. For this purpose, these offices should generally assume that the applicant's statements can be verified except when questionable matters of substance warrant more detailed investigation prior to making the recommendation under 3 below.
- 3 The Office of Ship Construction and the Office of Ship Operations shall submit to the Chief, Office of Government Aid, their recommendation as to approval in principle of the commercial ship characteristics and the proposed ship's suitability for the intended service.
- 4 The Office of Government Aid, taking into consideration the comments of the various offices, shall prepare and route via the other offices as appropriate, in accordance with Administrator's Order No. 161 (Amended), a recommendation to the Federal Maritime Board for approval in principle of the commercial ship characteristics and the proposed ship's suitability for the intended service. Such approval shall be on a contingent basis, subject to finalization by separate Board action after original representations are substantiated and properly documented.*

*4.02 Determination of Commercial Characteristics:

- 1 After the Board has given its approval in principle, as provided in subsection 4.01h above, the Chief, Office of Government Aid, shall secure from the applicant a preliminary design of the proposed ship and such other detailed supporting data as may be required by the staff to complete the review and processing of the application; and shall forward copies to interested offices as indicated in subsection 4.01l of this order, except that eight copies of the preliminary design shall be forwarded to the Office of Ship Construction.*

- 2 The Office of the General Counsel shall review the application and advise the Chief, Office of Government Aid, as to citizenship requirements and other legal questions raised by the application.
- 3 The Office of the Comptroller shall review the application and prepare recommendations to the Chief, Office of Government Aid, as to the applicant's qualifications to discharge successfully his financial obligations under the application.
- 4 The Office of Ship Construction shall review the preliminary design submitted by the applicant of the ship commercially required (i.e., excluding national defense features) to determine that the proposed construction is satisfactory from an engineering standpoint for its intended commercial use. This office may directly consult the applicant for clarification of technical details. The results of this review with appropriate recommendations shall be submitted to the Chief, Office of Government Aid, and shall include such aspects as design, construction cost, Maritime Administration construction standards and basic characteristics.
- 5 The Office of Ship Operations shall review and prepare recommendations to the Chief, Office of Government Aid, as to (1) the operational suitability of the ship for the service intended; (2) the operating suitability of the spaces and equipment; (3) the pro forma vessel and voyage costs; and (4) any questions which arise in the processing of the application requiring operational evaluation or comment.
- 6 The Chief, Office of Government Aid, shall review the application as to all other aspects not specifically assigned to another office, including (1) whether the proposed ship will meet the requirements of the foreign commerce of the United States; will aid in the promotion of such commerce, and will meet the commercial requirements of the intended service;* (2) whether the proposed ship is satisfactory from the standpoint of speed, cargo capacity, passenger capacity and estimated revenues for the service intended; and (3) in the event the applicant is a subsidized operator, whether or not the ship to be constructed is in accordance with the requirements of its operating-differential subsidy contract.
- 7 The Chief, Office of Government Aid, shall submit for further review, as appropriate, any recommended change of one office which might affect the previous recommendation of another office. If there are any major differences of opinion, the Chief, Office of Government Aid, shall endeavor to reconcile same at staff level, and if agreement cannot be reached, he shall refer the matter to the Maritime Administrator for decision.
- 8 When agreement has been reached among appropriate Maritime Administration offices and differences of opinion settled as provided in subsection 4.027 above, the Chief, Office of Government Aid, shall consolidate the findings, submit them to the applicant, and conduct negotiations regarding changes, if any, required in the proposed commercial ship (i.e., still excluding national defense features). When agreement with the applicant has been reached, the Chief,

Office of Government Aid, shall prepare, in accordance with Administrator's Order No. 161 (Amended), routing via other offices as appropriate, a report and recommendation to the Board for approval of (1) the basic commercial characteristics of the ship, specifying, in addition to such other data as may be appropriate, the commercial suitability and the technical suitability of the ship; and (2) such other related matters and such contract provisions with respect to the applied for subsidy as can be disposed of at that time.

4.03 Determination of National Defense Features:

- 1 After Board approval of the preliminary design as provided in subsection 4.028 above:
 - (1) The Office of Ship Construction shall submit the preliminary design and findings as to commercial characteristics of the proposed ship to the Bureau of Ships, Department of the Navy, for examination as required under Section 501(b) of the Act; and
 - (2) The Office of Government Aid shall secure from the applicant contract plans and specifications developed from the approved preliminary design, without reference to any features which may thereafter be suggested by the Department of the Navy.
- 2 The Office of Ship Construction shall review such changes, if any, suggested by the Department of the Navy and evaluate their design effect and the estimated cost of such changes. That Office shall then submit the Department of the Navy's letter to the Office of Government Aid, who shall review the changes and, in consultation with other interested offices, determine to what extent they appear to have commercial value.
- 3 The Chief, Office of Government Aid, shall refer to the applicant any changes suggested by the Department of the Navy; negotiate for agreement, subject to Board approval, with respect to such changes; negotiate for agreement, subject to Board approval, as to any commercial value of the changes suggested by the Navy and shall thereafter prepare a recommendation in accordance with Administrator's Order No. 161 (Amended) to the Federal Maritime Board specifying (i) those changes requested by the Navy which have commercial value and should be included in the cost of the commercial ship; (ii) those changes requested by the Navy which have a limited commercial value and as to which the Board should pay the entire cost or as to which the Board should pay the cost less the value of the commercial use to the applicant; and (iii) those changes requested by the Navy which have no commercial value and as to which the Board should pay the entire cost. As to (ii) above, the portion of the cost not to be paid by the Board in full shall be subject to subsidy.
- 4 After Board approval of the recommendation provided for in 3 above, the Chief, Office of Government Aid, shall request the applicant to modify the contract plans and specifications to include all changes

referred to in 3(i) above, and submit to the Office of Ship Construction supplementary contract plans and specifications which shall include the national defense features; that is, the changes requested by the Navy referred to in 3(ii) and (iii) above, for the purpose of obtaining two separate bids covering the completed vessel with, and without, defense features paid for by the Government. The latter Office shall review the supplementary contract plans and specifications and prepare for the Maritime Administrator a request for the written certification of the Secretary of the Navy as required by section 501(b) of the Act.

4.04 Determination of Cost Apportionment:

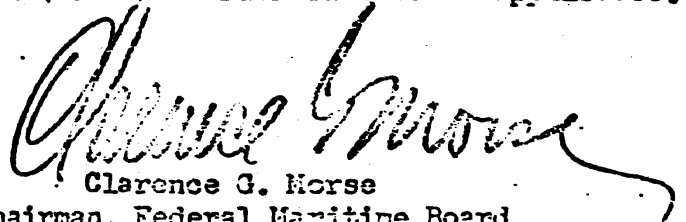
- 1 After Board approval required by subsection 4.034 has been given, and receipt of written certification from the Secretary of Navy, and final bidding plans and specifications have been approved by the Office of Ship Construction, the latter Office shall prepare and issue an invitation to bid on the construction of the ship, or, if the application is under Section 504 of the Act, the applicant shall do so under supervision of said Office, requiring bids to cover separately (1) the commercial ship (including the changes requested by the Navy which have full commercial value), and (2) the final ship (including all national defense features).
- 2 The Office of Ship Construction shall determine the lowest responsible bidder whose bid is fair, reasonable and responsive and recommend to the Board, in accordance with Administrator's Order No. 161 (Amended), (1) approval of its estimate of the basic foreign cost of the commercial vessel, that is, the foreign cost of construction of the vessel in question after the national defense features (to the extent the cost thereof is to be assumed fully by the United States) have been deducted; (2) approval based on the lowest responsible bid, of the amount to be paid by the Board for the national defense features; (3) the construction subsidy differential to be applied to escalation (if recommended bid is on an adjusted price basis), changes and extras, outfitting equipment, to the extent, if any, not included in the bid, inspection and interior decorator cost and design fees (as to each of these items, excepting escalation, changes and extras, the recommendation shall include monetary ceilings for disbursement for subsidy participation); (4) approval as to any and all provisions other than uniform articles, not covered above, that should be incorporated in the ship construction contract and (5) subject to acceptance by the applicant of the actions of the Board on the recommendations under this subsection 4.042 and subsection 4.043, award of the construction contract by the Board or, in the case of an application under Section 504 of the Act, by the applicant.
- 3 The Chief, Office of Government Aid, shall submit (as promptly as possible after the submission of the recommendation required under

subsection 4.042 above), in accordance with Administrator's Order No. 161 (Amended), a recommendation to the Board with respect to those provisions to be incorporated in the construction-differential subsidy contract which are not the responsibility of the Office of Ship Construction.

Section 5. Determination of National Defense Features When Construction-Differential Subsidy is Not Involved:

5.01 General Procedure:

- 1 In the event of receipt of an application involving national defense features but not construction-differential subsidy, the same general procedures, outlined hereinbefore as to Title V applications, shall be followed in accordance with each Office's responsibilities under Section 4 of this order insofar as applicable.



Clarence G. Morse
Chairman, Federal Maritime Board
Maritime Administrator